

CENTRAL INTELLIGENCE AGENCY **SECRET**

SECRET

DATE DISTR. 19 Jan 1952

NO. OF PAGES 7

SUPPLEMENT TO
REPORT NO.

THIS IS UNEVALUATED INFORMATION

25X

- (2) During the past period of Communist domination of Czechoslovakia it was obvious that the Party, and by it the whole country, was run by the all-powerful trio of the Central Committee: Rudolf Slansky, Bedrich Geminder, and Bruno Koehler. In daily work in state agencies, and practically in all fields of national life, the definite Party directive No 1 was strictly applied: "under all circumstances, in all operations, political considerations are to be given first priority". In this respect there was only one matter of importance for the vast Party machinery: to strengthen the security of the existing regime, i.e. the Party domination. This

SECRET

CLASSIFICATION SECRET

[illegible]

SECRET

SECRET

-2-

25X

was at the same time the main cause of the rapid deterioration of the Czech economic situation within something more than one year. Practically, this meant: to put in all, even lesser positions, only politically reliable individuals, or, putting it in the Party language, the "faithful sons of the workers' class", the thoroughly disciplined individuals who knew nothing except what they had been told and taught. This policy resulted in catastrophic losses to the highly developed Czech industry and economy. New "workers' cadres" were hurriedly educated in numerous "central workers' schools" and "workers' universities" in the basic economic alphabet. It soon happened that governmental departments, factories, distribution organizations, state and collective farms (JZD's) were run by people who had no qualifications for these jobs whatsoever. These examples show the extremes to which this went. Under the existing Party policy practically all positions were considered "responsible" and had to be occupied by "new cadres". An administrative director of a hospital naturally wanted to prove how responsible the clerical work was in hospital administration; high officials in the Ministry of Health wanted to show the importance of such work also. They decided therefore to put in these positions new "reliable" workers' cadres. This has resulted in a real hunt for the workers' cadres in factories and plants in order to get them into workers' schools. Most capable and skilled workers were thus taken off production and sent to schools, causing great damages to production in all fields of the national economy. After completing a brief education consisting mainly of political indoctrination, it happened, for example, that a ward from a hospital for mental diseases became the actual boss of the famous Myslivecek psychiatric clinic. The new boss, in his position of "political secretary", decided that all work with "crazy" people was sheer nonsense and put an end to research work conducted in this scientific institution. Under the same policy a stoker originally in charge of the heating system in the Student Health Institute, became overnight a high official in the Ministry of Health, Cadre Department, and was put in charge of the assignment of doctors. A garage maintenance man in the Ministry of Foreign Trade became deputy section chief of the Cadre Department and an actual head of all personnel of foreign trade companies. These are but a few examples of the new policy which resulted in a general mismanagement in all fields of the Czechoslovak economy and administration.

- (b) The ill-famed trio: Slansky, Geminder and Koehler were the actual creators of the above policy, but as Communist ideologists, being practically separated from the daily life of the country, they were not able to control these activities. It was generally believed that Slansky was a Moscow man, placed by the Soviets in charge of the entire country. In his blind drive for the security of the regime he destroyed the economy. So in 1949 he abolished the so-called Narodohospodarska Komise (NHK)-Economic Committee of the Central Secretariat, headed by Ludvik Frejka, Dr Goldmann and Dr Jung-Jarsik. This committee was the right hand of Gottwald, and creator of the Two and later the Five Year Plan. After the NHK

SECRET

SECRET

25X

SECRETSECRET
-3-

25X1

was dissolved Gottwald took Frejka with him to the President's Personal Office; Dr Goldmann was appointed Deputy Minister in State Planning Office in charge of statistics, and Dr Jung-Jancik, who was in charge of all economic cadres with the NHK was given a minor position with the local Slovak Government in Bratislava. Instead of NHK, within the Communist Party a new organization was created, the so-called Prumysl, Pecznicstvi, Obchod (abbreviated PPO)-Department Industry, Finance and Commerce, with new people in charge. Many general directors of national corporations put in by the NHK under Frejka and Jancik were dismissed, regardless of their technical qualifications, and given some inferior positions; some even went to jail. New personnel were appointed to such positions through the new General Cadre Department headed by Bruno Koehler, a German Communist who did not even speak fluent Czech. The Foreign Affairs Ministry headed by Clementis, trying desperately for the sake of foreign trade to "go slow" in this overall Communization, was always more and more pressed by Geminder, who was believed to be the liaison man for the Cominform. The entire nation was becoming more and more disgusted by State propaganda methods. The national output decreased steadily as a result of the mismanagement of new bosses, deep apathy of the working masses, ever growing shortages of raw materials, and disorganization of the entire economic and administrative life of the country. Since propaganda drives had not brought forward any positive results, the ever-growing and quickening "turn-over" of employees had only added to the rapidly spreading general chaos in the country. And yet, even if the situation had resulted in complete bankruptcy, it would be wrong to expect that the political might and the iron grip of the Communist Party would be weakened to such an extent as to permit a general uprising or some kind of internal revolution. On the contrary, with the weakening economy the Communist terror grew in its cruelty and scale. And then, in the last moment, when the coal output and the agricultural production were getting dangerously low and the general chaos in administration had reached a stage that nobody knew any more what was going on in the country, came the blow, the biggest shakeup in the Communist Party, ordered undoubtedly from Moscow. Rudolph Slansky was removed to an unimportant position, Geminder and Koehler simply vanished. An economically-minded group of individuals headed by Klement Gottwald came to power. It meant also the reinstatement of his Oxford-trained economic advisors, Dr Goldmann and Ludvik Frejka. The new Ministry of State Control was put in the charge of Karol Bacilek a Slovak Communist, known as a faithful and blind follower of Gottwald.

- (c) The establishment of new Czechoslovak economic ministries does not follow strictly the Soviet pattern; it has in itself a specific significance. In Czechoslovakia, with practically fully nationalized industry, the activity of the Industry Ministry grew on a tremendous scale and it soon became the actual administrator of various industrial groups. This led to necessary decentralization. First, two independent Ministries for Heavy and Light Industry were created. Later on, they

SECRET

SECRET

25X1

SECRET

25X1

-4-

SECRET

were divided into some more specialized ministries. This reorganization does not necessarily result in a larger bureaucratic machinery; we have to keep in mind that in the mean time the collective workers' administration of enterprises was abolished, and the plants and other enterprises were put under the direct administration of a corresponding industrial ministry. It is to be expected that after the removal of Koehler more attention will be paid to actual qualifications in appointment of employees, and not only to political reliability as it was before.

2. A part of the blind policy of the old trio, Slansky-Geminder-Koehler, was also the unfortunate case of William Oatis. I am afraid that today his release is a matter of prestige to the Communist Government of Czechoslovakia. I am sure that the Gottwald group would never have been so short-sighted as to risk all the economic losses which have resulted from the Oatis case to Czechoslovakia. The future will show whether the Gottwald group will be able to save the situation. It is possible that Moscow has set a time limit for this consolidating policy. I have often heard that Dr Jaromir Dolansky, the Minister for State Planning and the best Communist economist in the country, was always in strong opposition to Slansky's methods and urged Gottwald to convince Moscow that no positive results could be expected in following a strict Communization policy with complete disregard for economic problems. It could be assumed that, at least for a certain time, Gottwald succeeded in convincing the Kremlin masters of this. Some people said that if Gottwald did not succeed in his task, Slansky would be returned, with a reign of terror, to squeeze the country and people as never before.
3. At the present time distribution of goods within Czechoslovakia is completely separated from production and foreign trade and internal retail trade has completely vanished. The distribution of goods to the population is conducted through the following national corporations established for this particular purpose: Pramen (food), Masna (meat), Kovomat (hardware), Elektra (radio, phone, electrical equipment), Textilia-Tep (textiles), Jas (footwear and leather goods), Chemodroga (cosmetics, chemicals, drugs, except pharmaceuticals), Narpa (paper goods, office needs), Benzinol (automobile fuels, filling stations), Medica (pharmaceuticals), Mototechna (auto spare parts, motorcycle and bicycle spare parts, new and used cars, service stations and garages), Odpadove suroviny (collection of scrap), Novy Byt (furniture, musical instruments). All these organizations are created on a nationwide scale. In communities there are set organizations called "communal corporations", owned by the respective community or district (there are more of such corporations in every community for various services like barbers, bakers, laundry, auto-taxi, etc). In addition to all these organizations there is one nationwide food chain store set on a cooperative basis, called "Bratrstvi" (Brotherhood). In large cities there are organized department stores selling all kinds of consumer goods and owned by the national corporation called "Obchodny Domy". All these national corporations are supervised by the Ministry of Internal Trade. Practically all food and many other commodities are rationed. Composition of rations can be seen every month in the official newspaper Rude Pravo.

SECRET

SECRET

25X1

SECRET

25X

-5-

SECRET

The distribution system is very bureaucratic and works rather poorly, especially in the country. The former shop owners are made scapegoats for this failure and are usually blamed and even accused of sabotage. Late in 1950 many former shop owners, employed until that time in their nationalized shops, were transferred to other shops, and at the beginning of 1951 were completely removed from trade business and sent to factories as manual laborers. It was of course much easier for the regime to break the resistance of the middle class than the resistance from the peasant class encountered in the collectivization drive.

4. The volume of goods distribution rose rather substantially during the last year, but the rise was due solely to the sharp increase in consumer prices. Actually, though, consumption has dropped in most items, since the population cannot afford to buy the goods at the new, high prices. The increased consumption of basic consumer goods per capita promised in 1948 and 1949 was not realized. The reasons for this failure were: the administrative mismanagement, shortages of raw materials, increased delivery demands of the USSR, and the growth of the Czechoslovak rearmament program. Outside of the State Planning Bureau, the real statistical data of production and consumption are known only to the top Party officials. On the average, the entire consumption is lower per capita than a year ago.
5. The food shortage was sometimes attributed to the stockpiling of canned food as war reserves, but I think that this shortage originated actually more from the lower output, lower import of raw materials for food production, and a poor distribution system. Besides, there is practically no canning industry in Czechoslovakia to absorb large quantities of food. The average citizen feels more the shortage in meat and fats. Several months ago the free market completely vanished, and now people can buy only what they get on their ration cards. The rations are often impossible to get. Acute shortages also exist in eggs, milk and coffee. Shortages in agricultural products are caused mainly by lower farm output, a result of collectivization. For propaganda reasons the present food rations in Czechoslovakia are compared with those in England. This does not give a true picture, however, for even if the British have low food rations, they have unrationed meat meals in restaurants and a variety of meats and canned meat on the free market. This does not exist in Czechoslovakia, and if it did, very few people could afford to buy such goods.
6. The Soviet domination in Czechoslovakia has not resulted in any gains for the national economy. The losses, on the contrary, are great and far-reaching. Czechoslovakia was an industrialized and economically well-balanced country. The entire industrial structure, so healthy in the past, has been completely changed, as a result of the enormous output of war materials, not only for the Czech Armed Forces, but mainly for the USSR and other industrially backward satellite countries. Available manpower resources have been exhausted, and labor is forced to work harder, longer and more, under constantly deteriorating conditions. The results of such hard work do not justify all these sacrifices, the output is always lower, as a result of mismanagement, passive resistance of the majority of people, and material difficulties are countered more and more in production.

SECRET

SECRET

25X

SECRET

-6-

SECRET

25

7. There are no published statistical data on the national health and mortality, but I think the situation in this respect has worsened considerably during the last two years. Consumption is always lower, approaching the level of the USSR. The existing close economic and political cooperation contributes of course to the leveling of differences between Czechoslovakia and the USSR. With the inclusion of industrialized Czechoslovakia into the Eastern Bloc, the entire standard of Czech living was immediately lowered. I consider the weakest spot in the present administration in Czechoslovakia to be in production, because of the growing chaos in it. Contrary to this, the strongest, and presumably the best organized agency, is the Ministry of National Security.
8. The last sharp price increase in June 1951 in many basic consumer goods has destroyed the last confidence of broad masses of the Czechoslovak people in the national currency. Although the Central Committee of the Communist Party has tried to keep the intended price increase secret until the last minute, the news leaked somehow and a real panic among the population resulted. The stores were stormed by huge crowds of people buying everything available, in any quality and quantity. The population has expected actually a currency reform similar to the Polish. The buying spell preceding the price increase has shown also how much money was still in the country. Immediately after the new prices went into effect, came a nationwide drive for wage and salary reforms. This was done in two ways: by the direct lowering of basic wages, and by "hardening" of production norms. This drive still goes on. There were also some rumors that the government is preparing a campaign for an internal loan to finance the "Socialist Construction Program", similar to that in the USSR. As things are now, nobody except a few fanatic Communists trusts the national currency.
9. The value of the US dollar has lately somewhat decreased for the following reasons: until 1949 there was still some emigration, mainly of Jews, who were seeking dollars and smuggling them abroad; the Darex organization, selling export goods for hard currency, was better supplied with high quality merchandise at reasonable prices. At that time the dollar was available on the black market at the price of 600 Czech crowns to a dollar (the official rate was 50 crowns). Since emigration has been stopped and escape from the country made practically impossible, the value of US dollars has slightly decreased to 500-550 to a dollar. The newest Darex regulations allow the population to buy Darex goods for hard currency without any identification of purchaser. The purpose is to get dollars and other hard currency from the black market and savings. Other reasons that dollars are no more so feverishly sought as in 1948 - 49 are as follows: discontinuation of imports from the US; US export regulations on one side, and the incapability of the foreign trade employees to buy goods on foreign black markets and to bring them home illegally, on the other side.
10. Nothing about the national budget is known, except the figures published during the budget presentation in Parliament. But it was rumored that the income from the "general consumption tax", which was sharply increased by the June 1951 price increase, was not fully used for budgetary purposes and was kept separately for the financing of the armament program. But I have no statistics or even estimates. There are no signs of financial weakness in the country, however.

SECRET

SECRET

5X1

SECRET

~~SECRET~~

25X1

11. In order to trade with countries short of hard currency, the Merkuria Corporation was organized. It was created on the suggestion of the former Deputy Minister of Foreign Trade Mr. Evzen Loebl. This company should be exclusively in charge of barter business. In its transactions the company first showed some positive results. Many countries which did not have proper trade and payment agreements with Czechoslovakia and were short of dollars, were served by Merkuria on a barter basis. In such cases Merkuria usually negotiated with such other companies as Centrotex, Chemapol, Kovo, etc., about the various items of export and import. Eventually, though, this barter business has slowed down, for Merkuria encountered more and more difficulty in negotiating with other companies, trying to get suitable goods for barter. At that time the foreign trade companies tried to keep high demand goods for themselves, in order to export them abroad, and to give to Merkuria the goods they could not get rid of otherwise. Merkuria is to be closed.
12. Government propaganda concerning the rearmament of Western Germany initially had a strong effect on the Czechoslovak population which feared, in the case of a new war, another German occupation. However, the situation has changed considerably, with the majority of Czechs believing that World War III is inevitable. The vast majority desires war as the only means by which Czechoslovakia might be liberated, despite the unbearable hardships which the nation might suffer during the war. Under such conditions, Czechoslovaks do not fear German rearmament as much as previously. Cooperation with anyone, even with the Germans, is apparently favored in order to get rid of the Communist regime and to destroy Soviet influence in Czechoslovakia.

-end-

~~SECRET~~

SECRET

25X1